

USAID/OIG: Accountability in the International Environment

Responsibility for oversight of the U.S. foreign assistance program and the fact that the U.S. Agency for International Development (USAID) Office of Inspector General (OIG) has overseas offices, has fostered a growing role in the fight against corruption for USAID/OIG. USAID/OIG is responsible for auditing and investigation services for USAID, the African Development Foundation and the Inter-American Foundation, with annual budgets of approximately \$7 billion and activities in over 90 countries.

The overseas environment—with remote locations, many languages, unique customs, and different accountability standards—make our work interesting and challenging. To meet these challenges, the USAID/OIG maintains six overseas offices. These Regional Inspector General (RIG) offices are located in Budapest, Hungary; Cairo, Egypt; Dakar, Senegal; Manila, The Philippines; Pretoria, South Africa; and San Salvador, El Salvador.

While conducting audits of overseas activities, USAID RIG offices work with various countries' national audit agencies and local private accounting firms. Our long-term relationship with audit and law enforcement organizations in Africa, Asia, the Middle East, Europe and Latin America have enabled us to build and strengthen partnerships in accountability for USG foreign assistance.

Accountability and transparency activities that are today the core of anti-corruption platforms have long been our basic work. Our overseas offices are called upon to provide education and assistance as the movement to improved government accountability has gained momentum.

USAID is a leader in funding anti-corruption activities as part of its Democracy and Governance programs and participates with the State Department in activities mandated by the International Anticorruption and Good Governance Act. The first report under the Act, submitted in April 2001, discusses the USG help to foreign countries including USAID/OIG Fraud Awareness training in 25 countries and general training for over 20 Supreme Audit institutions.

OIG accomplishments and collaborative work in anticorruption were recently recognized with the selection of the Inspector General as a member of the U.S. delegation to

attend the Global Forum II conference at The Hague in the Netherlands. Global Forum II is the largest intergovernmental meeting on international anticorruption. The conference highlighted the importance of keeping integrity and transparency in government high on the international agenda. Representatives from more than 140 countries participated in the conference. Attorney General John Ashcroft led the U.S. delegation and the Inspector General was the senior USAID participant.

Training and Coordination of SAIs

To help strengthen institutions that deter corruption, the USAID/OIG provides training and technical assistance to expand the capabilities of Supreme Audit institutions. These institutions are the national audit organizations of various countries. Our goal is to enhance their capabilities to review the accountability of donor funds coming into their country from other countries resulting in sustainable development. We worked directly with over 20 countries to determine that their work meets professional standards so that we can rely on that work.

The USAID/OIG has developed memoranda of understanding with the following 17 countries upon review of professional capability and assessment of independence:

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| ● Ethiopia | ● Uganda | ● Mali |
| ● Malawi | ● Indonesia | ● Honduras |
| ● South Africa | ● Thailand | ● El Salvador |
| ● Tanzania | ● Senegal | ● Bolivia |
| ● Zambia | ● Ghana | ● Peru |
| ● Zimbabwe | ● Benin | |

Training on Fraud Awareness

The USAID/OIG provides fraud awareness training at meetings, conferences and other forums as part of its worldwide anti-corruption initiative. These briefings include a definition and explanation of both audit and investigative functions, an in-depth presentation of fraud indicators, and aggressive law enforcement strategies.

The USAID/OIG has developed a Fraud Indicators handbook to reinforce the message communicated during the fraud awareness training. The manual provides valuable information on detecting fraud in government contracts, recognizing fraudulent schemes in projects and procurements, spotting indicators of financial fraud, and other relevant topics. The handbook has also been translated into Spanish and French.

The audience for the fraud awareness briefings include those that are most closely involved with implementing USAID-financed activities, i.e. contractor and grantee employees. Countries where the USAID/OIG has provided fraud awareness training include Armenia, Colombia,

Dominican Republic, Egypt, El Salvador, Guatemala, Haiti, Honduras, Hungary, Israel, Jordan, Kazakhstan, Kosovo, Kyrgyzstan, Madagascar, Malawi, Mozambique, Nicaragua, Nigeria, The Philippines, Russia, Senegal, South Africa, Uganda, and the Ukraine.

In Honduras, for example, the USAID/OIG has provided fraud awareness training to over 1,000 people, including auditors from public accounting firms, members of the Controller General of Honduras and staff of recipients receiving USAID funding.

In addition to training at the country level, the OIG has provided fraud awareness briefings and training in other forums. For instance, a representative from USAID/OIG recently addressed the Donor Consultative Group on Accountability and Anticorruption in Latin America and the Caribbean on investigative efforts in that region.

In Southeast Asia, the USAID/OIG gave a fraud awareness presentation at an USAID/Philippines-sponsored workshop. The workshop participants represented USAID employees from Kazakhstan, Armenia, Hungary, Egypt, Cambodia, Bangladesh, India, Mozambique, Nepal, The Philippines, Georgia and the West Bank/Gaza.

To expand our reach, the USAID/OIG produced a Fraud Awareness training videotape. That tape has been provided to our overseas offices for dissemination to USAID offices.

Financial Audits of U.S. and Foreign-based Grantees, Contractors, and Enterprise Funds

Since periodic audits are essential to help deter fraud, the USAID/OIG has established a financial audit program that covers contractor and grantee awards. This program helps to combat corruption, and to improve transparency and accountability and accounts for well over half of the audit reports issued by the USAID/OIG. The program's components are:

- **Audits of U.S.-Based Contractors.** U.S.-based contractors carry out many USAID-financed development activities overseas. To provide audit coverage of funds provided to these contractors, USAID contracts with the Defense Contract Audit Agency to conduct financial audits in accordance with U.S. Government Auditing Standards. The USAID/OIG then reviews the resulting audit reports.
- **Audits of U.S.-Based Grantees.** U.S.-based non-profit organizations (grantees) also receive significant USAID funds to implement development programs overseas. Under the financial audit program, grantees hire non-federal auditors from independent public accounting firms to ensure that grantees use and account for U.S. Government funds appropriately. The OIG oversees the quality of work from these non-federal auditors.

- **Audits of Overseas-Based Grantees and Contractors.** Under the USAID/OIG's financial audit program, foreign-based grantees expending a specified minimum amount of USAID funding undergo financial audits performed by either local auditing firms or host country Supreme Audit institutions. The USAID/OIG reviews each audit report in this Recipient-Contracted Audit program.

An Agency-contracted audit program supplements these audits. Through this program, USAID may request financial audits of any USAID-funded grant or contract. Private auditing firms conduct these financial audits as well, but the USAID/OIG reviews the completed work in greater depth.

The USAID/OIG also performs quality control reviews of the audit work done by auditing firms to ensure that the work meets the appropriate auditing standards.

Assessing Risks

The USAID/OIG assesses the vulnerability of corruption in host countries and identifies those previously involved in criminal activity who may pose threats to USAID-financed activities. The USAID/OIG identifies government and non-government organizations with a history of non-conformance to USAID regulations and U.S. law, and focuses audit resources on programs that have been vulnerable to fraud, waste or abuse in the past. Our criminal research specialist allows us to better collect, analyze and report data on corruption in target areas. In addition, when weaknesses are uncovered in individual USAID-financed activities or operations, the USAID/OIG offers recommendations for systemic improvements. In recent years, the USAID/OIG has performed risk assessments in the following countries:

- Kosovo
- Russia
- Kazakhstan
- Hungary
- Ukraine
- Serbia
- Honduras
- Colombia
- Nicaragua
- El Salvador
- Guatemala
- Costa Rica
- Dominican Republic
- Mozambique
- Madagascar
- Haiti

In Honduras, for example, the USAID/OIG began an additional initiative in September 2000. Under this initiative, a joint audit and investigation team commenced a

review of approximately 75 contracts awarded by the Mission for Reconstruction projects under the Central American and the Caribbean Emergency Disaster Recovery Fund. The team was looking for patterns that would indicate possible bid rigging, collusion, low-balling of contracts or other illegal activity in the awarding of contracts. The team extensively reviewed the documentation supporting the contract awards as well as interviewed officials from the Mission and the Honduran government to determine that the awarding of the contract was reasonable. The results of this initiative did not disclose any illegal activity; thus providing the U.S. government added assurances that the funds provided to Honduras were accounted for properly.

Providing Concurrent Audits

Where an USAID/OIG risk assessment reveals an exceptionally high risk for an USAID-financed activity, the OIG reduces the U.S. government's vulnerability through *concurrent auditing*. Concurrent audits closely monitor the accounting during program implementation. These audits involve quarterly reporting by auditors, whereas audits in a lower-risk environment normally entail annual reporting. The USAID/OIG's recent concurrent audits have focused on:

- Central American and Caribbean Emergency Disaster Recovery Funds in Honduras and El Salvador. In Honduras, the Controller General and OIG jointly oversee financial audits covering road and bridge construction activities. In El Salvador, the Court of Accounts (SAI) is auditing road construction.
- Certain assistance to Bosnia-Herzegovina, namely the Municipal Infrastructure and Services program and the Bosnian Reconstruction Finance Facility program.
- Assistance for Mozambique and Madagascar through the South Africa Flood Reconstruction and Recovery Program to rehabilitate roads and railways and to provide direct assistance to flood victims.

Co-chairing an Anti-corruption Summit

In September 2000, the USAID Inspector General together with the Auditors General of the World Bank and the



Inter-American Development Bank, co-chaired the Anti-corruption Summit 2000. The conference was a major international forum for leaders to discuss strategies to combat corruption. Over 300 representatives attended it from 54 countries.

Representatives from Supreme Audit Institutions and other Inspectors General offices composed about one-half of the participants. Other attendees included civil servants and private sector finance and economics professionals.

Six-Part Strategy

In conclusion, the USAID/OIG has developed and is implementing a six part Anti-corruption Strategy. We remain committed to the battle against corruption through our anti-corruption strategy that includes:

1. **Surveying the environment**—The USAID/OIG assesses historical corruption in host countries and identifies local threats and vulnerabilities to programs of the USAID, the African Development Foundation (ADF) and the Inter-American Foundation (IAF) programs.
2. **Establishing a close working relationship**—The USAID/OIG works closely with USAID, ADF and IAF management, Non-Governmental Organizations, Private Voluntary Organizations and host governments to promote cooperation and collaboration.
3. **Emphasizing a team approach**—The USAID/OIG encourages the timely submission of referrals, and works towards the early solution of problems.
4. **Educating employees about fraud awareness issues**—The OIG trains employees and partners in fraud awareness and anti-corruption issues to ensure that all are aware of their responsibilities when confronted with evidence of fraud or corruption.
5. **Enforcing the Foreign Corrupt Practices Act aggressively**—This Act prohibits an U.S. firm or agent of the firm from making a “corrupt” payment to a foreign official for procuring or retaining business. The USAID/OIG works closely with the Department of Justice in investigating violations of the Act, and uses this Act as a tool in fighting corruption in USAID programs.
6. **Offering recommendations for systematic improvement**—The USAID/OIG recommends systematic improvement if a weakness is uncovered in a program or operation and works with USAID, ADF or IAF to correct the problem.

The USAID/OIG continues to work with USAID to enhance accountability over the U.S. foreign assistance program worldwide. USAID and USAID/OIG anti-corruption activities will continue to be an important part of the foreign assistance program of the United States Government. 